Study of Export Trade Financing in India with Particular Reference to Commercial Banks: Problems and Prospects

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23 May 2013

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ABSTRACT

Exports are instrumental in the development of an economy, particularly developing nations. The Indian Financial System, through commercial bank offer financial resources for promoting exports by providing both pre and post shipment finances. LERMS and Full –convertibility on trade account of Indian rupee have provided importers to export financing, so also the New Trade Policy, provides a Favourable climate for exports.

The present paper spells out the role and share of commercial banks in export financing and issues in export financing i.e. aspirations and requirements of borrowers and discontentment of banks with the present regulation of export credit. The paper suggests for increasing the flow of bank credit to export sector, restructuring the interest rates. It also calls for a change in the attitudes of banks conservative and risk avers. The need for coordination between banks and financial institutions, role of EIGC in timely settlement of claims are impetus for a favorable export business. The stress is on introducing the new innovative services of counter trade, overseas borrowings, international factoring and banker's acceptance for accelerating promotion of exports.

Introduction:

Export constitute the edifice of citadel of a sound economy more particularly for a developing nation like India, which has been suffering from a persistent balance of payment (BOP) problem from more than a decade, reaching to a crisis proportion in June 1991.[2] Therefore, thrust towards development of Indian economy has been promotion of exports.

One of the major contributory factors for promotion of export trade is the availability of "Special Finance" both at pre and post-shipment stages. An exporter has not only to procure the raw materials either indigenous or imported for processing the same in finished goods and boarding them of ship/air, but also has to often allow credit terms to an overseas buyer. Delivery period in international trade transactions is normally longer compared to the domestic counterpart and correspondingly. The lead time for getting payment from the overseas buyer is more. The exporter has thus to be extra cautious to ensure that the overseas buyer is reliable one and payment for the goods/services sold/rendered will be realised expeditiously. Therefore, the issues involved in export finance primarily involve (i) availability of adequate and timely finance, (ii) provision of concessional credit on order to make the export internationally competitive, (iii) institutional support to protect the losses on account of default risks of

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2Refer to Economic Survey 1992-93 for the discussion on BOP crisis faced by India in 1991.

the overseas buyers, and (iv) availability of special deferred credit for promotion of project exports including turnkey assignments.

No doubt, Indian financial system has a well developed and integrated mechanism of offering financial assistance to exporters both at pre and post shipment stages. The commercial banks are actively engaged in financing genuine and need based short term requirements of the borrowers. Export refinance mechanism from Reserve Bank of India takes care of the augmentation of their resources besides contributing to their profitability. Export Bank of India and Export Credit Guarantee Corporation of India (ECGC) Limited are the other two institutions created in this regard.

Despite the existence of such massive network, the problems continue. Complaints are often heard from exporters, regarding rigidity of banks' credit mechanism alongwith delays in decision making process. Suggestions come forth towards relaxation of norms for financing alongwith need for introduction of innovative services. Similarly, bankers opine in favour of closer coordination with term lending institutions and better response from ECGC towards settlement of claims.

In the above backdrop, the present study was undertaken to look into the various aspects of export financing in India with particular reference to the role of commercial banks. The specific objectives of the study were to: (i) analyse the trends of export financing in India with particular reference to credit by commercial banks, and (ii) assess the various problem areas relating to the present state of export financing and suggest suitable remedial measures.

He study involves analysis of both primary and secondary of information. Primary sources involved collection of date from(i) exporters and (ii) bankers. Discussions were held with a number of exporters to elicit their views and suggestions as regards prevalent export credit system. Similarly, a number of bank executives involved in international banking operations were interviewed to find out their opinion and suggestions to improve the existing system.

The plan of the study is as follows. The first section discusses the various liberalisation measures adopted by the Reserve Bank po India during the last two years in matters relating to export finance. The institutional framework and trends of export credit by commercial banks have been deliberated upon in the second section. The third section contains the projection of both exports and export credit requirements for the 1990s. Survey findings based on discussions with exporters and bank executives are contained in the fourth section, bringing out the various issues involved in export finance. Finally the fifth section draws conclusions and suggests recommendations to improve the prevalent system of export finance.

Section-I

Recent Liberalisation Measures In Export Credit Facility

Starting from the late seventies and intensified during the last two years has been an overall trend towards liberalisation of the Indian economy. The Liberalised Exchange Rate Management Systems (LERMS) was introduced on 1st March, 1992 as a first step towards full-convertibility of Indian rupee on trade account. New Trade Policy announced on 13th August, 1991 aims at restoration of viability in the external payments situation with a view to reinstall international confidence in the country and achieve true self reliance. The new Export-Import Policy has been announced by the Government on 31st March, 1992. The new policy will have five year duration from 1st April, 1992 to 31st March, 1997 coinciding with Eighth Plan period. Several measures have been taken by the present government since the announcement of New Industrial Policy in July 1991 in this regard. These Policy measures have eliminated to a great extent licensing, quantitative restrictions and other regulatory and discretionary control and have paved the way for greater participation of foreign firms in the Indian industries, especially in export sector. One of the major aims of these policy changes is to promote Indian manufacture exports. However, some studies show no clear cut evidence on the favourable impact of greater participation of foreign firms, and devaluation and convertibility of rupee on exports (during 1985-88) (Keshari & Sagger, 1989, Keshari, 1992, Sarkar, 1992). On the hand, there is no denying that greater availability of export finance and streamlining of procedures relating thereto have lead to higher exports (Panchamukhi *et al,* 1991). Perhaps in the light of the finding of the later study, during the last two years, a number of further relaxations coupled with financial innovations have taken place in respect of export finance as well. Some of these important changes are discussed in the following paragraphs.

With effect form 1st January, 1992, a new scheme known as post-shipment export credit denominated in foreign currency (PSCFC) has been introduced. (IECD No.40/EFD/819-PoL-ECR/91dt December12, 1991, RBI). Under this scheme, the post-shipment credit given by the banks will be in foreign currency (US dollars). This means that, although the exporter will be paid the Indian rupee equivalent of the export bill(s), the indebtedness of the exporter to the bank would be designated in foreign currency. The implication is that rate of interest payable by the exporter may be at a lower level compared to rupee finance. The rate of interest on such credit will be determined by the Reserve Bank of India on the basis of interest rates and other condition prevalent in the international financial markets from time to time.

The added advantage of the scheme is that the banks on such exposure would get refinance from Reserve Bank of India at the accelerated rate of 133 1/3 per cent of the finance provided by them. At present, such finance is provided at concessional rate of 6.5 per cent per annum. The refinance on such credit, with effect from 22nd April, 1992 is offered at 5.5 per cent. Packing credit running account facility has been extended to all commodities. (IECD No.56/EFD/819-PoL-ECR/91-92dt. March 3, 1992,RBI).

Banks have been permitted to extend pre-shipment credit for a period beyond 180 days but upto 270 days in cases where exporter has not been in a position to ship the goods within 180 days for reasons beyond his control. Further, authorised dealers can, ab initio, grant packing credit upto 270 days in respect of commodities which would need credit for such longer duration. Prior permission from the Reserve Bank of India would not be needed is such cases.

Keeping in view the simplification towards procedural modalities, banks have been permitted to give loans to the exporters against their duty draw back entitlements claimed by them based on “All India Rate” endorsements by requisite authorities i.e. Collectors of Customs and Central Excise, pending sanction of special brand by the Government.

Requirement of cash margin towards import of capital goods as well as other materials both for manufacturer exporters and trading/export houses has, to a considerable extent, been relaxed.

Hitherto, authorised dealers were empowered to handle documents on behalf of the exporters who had received the payments directly from the overseas buyer(s) in the form of bank draft, pay order, banker's cheque, and personal cheque provided the value of such instrument did not exceed US $7,500 or its equivalent per shipment and subject to certain conditions. This monetary ceiling has since been removed.(A.D. (M.A.Series) Circular No.2 dt. Jan 16, 1992, RBI).

Tolerance level in respect of outstanding export bills has been liberalised. The previous guidelines were that export bills outstanding for valid reasons not exceeding 5 per cent of the average annual export realisation during the previous three years subject to a ceiling of Rs.1 crore, should not be reckoned for the purpose of deciding whether export bills are outstanding beyond the prescribed period from the date of export. The limit of Rs.1crore was subsequently raised to Rs.3 crores. Now the absolute monetary ceiling concept has totally been withdrawn. (IECD Cir. No.37/PMD/99/91-92 dt. December 6, 1991, RBI).

There has been continued relaxation in the export refinancing scheme from Reserve Bank of India keeping, however, in mind the monetary expansion it may result. With effect from 1st January, 1991, the export credit refinance limits to scheduled commercial banks were increased from 75 per cent to 100 per cent of the increase in export credit over its monthly average level for the financial year 1988-89. However, the scheme of things changed with effect from 27th July, 1991. Under the revised scheme, the refinance was provided to the extent of 50 per cent of the increase in export credit of the monthly average level of 1988-89 upto monthly average level of 1989-90 plus 100 per cent of the increase over the monthly average level of export credit in 1989-90. The 50 per cent formula under the first tier as mentioned above has since been increased to 60 per cent with effect from 4th September, 1991. The 100 per cent formula has since been raised to 125 per cent in two stages-110 per cent effective from 2nd November, 1991 and 125 per cent form 28th December, 1991.

General permission has been granted by the Reserve Bank to the project/service exporters for opening foreign currency bank accounts and availing of temporary overseas borrowings. However, such exporters have to adhere to the conditions stipulated by the Exim Bank in this regard. (A.D.(M.A.Series) Corcular No.7dt. February 17,1992, RBI).

Hitherto, the powers to consider all counter-trade proposals involving adjustment of value of goods imported in India against value of exports from India and vice versa were vested with Ministry of Commerce, Government of India. This power has since been delegated to the Reserve Bank. (A.D.(M.A.Series) Circular No. 8dt. February 18, 1992, RBI).

Exim bank has been permitted to introduce forfeiting in the country. However, Exim bank will not provide the finance directly ; it will only work as an intermediary between an overseas forfeiting agency and the exporter. The finance would however be routed through an authorised dealer. (A.D.(G.P.Series) Circular no. 3 dt. February 13, 1992, RBI).

The above deliberations show that during last two years, there has been considerable relaxation in the policy matters relating to export finance. The trend is obviously moving towards decentralisation and innovation.

Section-II

Institutional Framework and Trends of Export Credit by Commercial Bank

Export finance can broadly be classified under tow heads:

Pre-shipment Finance: This includes (i) packing Credit, and (ii) Advance against receivables from the Government like duty back, international price reimbursement scheme (IPRS) etc.

Post-shipment Finance: This consists of (i) Negotiation of export documents under letters of credit, (ii) Purchase/discount of export documents, (iii) Advance against bills sent on collection basis, (iv) Advance against exports on consignment basis, (v) Advance against indrawn balances, and (vi) Advance against receivables form the Government like duty draw back etc.

Besides, the short term trade financing above, banks on participation with Exim Bank, the apex coordinating agency for export financing in the country, extend project financing (through working group or otherwise) for export projects. Banks are also involved in issuance of letters of guarantee (bid bonds, performance guarantees, advance payment guarantees etc.) on behalf their constituents. The institutional framework also comprises of Export Credit Guarantee Corporation of India (ECGC) Limited which, through its various policies and guarantees issued to the exporters and banks, endeavours to mimimse the risks involved in international trade financing.

Trends in Export Credit by Commercial Banks Since export credit grows with growth in exports. Many important factors which affect exports determine export credit requirements as well. These factors at macro-level include exchange rate of rupee, availability of incentives and others. However, the amount of exports can be considered as the single most important factor determining export credit, The relationship between the exports and export credit by commercial banks during the last ten year is given in Table 1.

The, the export credit by commercial banks, on an average, comprise 24.60 per cent of the total exports of the country. The above computations do not take into account the deferred credit given by banks and other agencies. It can, therefore, safely be concluded that more than 1/4th of the total exports of country have been financed by the banking system. However, the export credit by the banks in not substantial out of deployment of gross banks credit (Table 2). Export credit by commercial banks constituted, on an average, 5.32 per cent of the gross bank credit during the period from 1980-81 to 1987-88. However, the proportion improved subsequently to 8.05 per cent in 1989-90. It subsequently came down to 7.78 per cent during 1990-91.

Within the banking system, the performance of various bank groups has been different. The percentage share of various bank groups in total export credit portfolio of the banks during 1988 to 1990 is given in Table 3.

The analysis reveals that the share of nationalised banks is highest at 62.49 per cent in per-shipment credit and 65.58 per cent in post-shipment credit in 1990 followed by SBI group. The other interesting feature has been the reasonably good share of foreign banks (8.46 per cent on average) in the total export by banks during the period from 1988 to 1990.

The comparative position regarding the growth in exports and pre-shipment as well as post-shipment bank credit is given in tables 4 and5. The trends reveal that, while average growth of exports in terms during 1980-81 to 1985-86 has been 9.7 per cent, it grew at a much higher rate of 26.3 per cent during the next five years from 1986-87 to 1991-92.The per and post-shipment bank credit at current prices followed a similar growth rate. Average growth rates in per and post shipment bank credits during 1980-81 to 1985-86 were only 8.9 and 9.4 per cent respectively. During the subsequent period from 1986-87 to 1991-92, the growth rates were higher at 35.1 and 36.0 per cent respectively.

Interest Rate Structure for Export Credit one of the issues often debated is whether the cost iof export credit in India is comparable to major developing countries. Not much of date is available on the subject except Credit in India, constituted by the Reserve Bank in 1986. According to the committee, such comparison is not conceptually realistic if normal interest rates on commercial credits are determined on extraneous basis rather than their underlying cost, which is a reality in most developing countries including India. However, the committee observed that the differential in favour of export credit (i.e.the difference between normal interest rate on commercial loans and rate charged on export credit) in India was, by and large, the same as prevalent in countries like Pakistan and Bangladesh. Further, the eligibility of concessional credit in those countries is limited to a few select items as against the wider coverage in India. In Sri Lanka, concessional export credit is available at the stage of realization of export credits. In many other countries like South Korea, Indonesia, Taiwan, Malaysia, Singapore etc, the interest differential varies between 1.5 per cent to 6.5 per cent. However, in absolute terms, the lowest interest obtaining is in Taiwan, which is 5.75 per cent at the pre-shipment stage as well as for short term export promotion loans.

However, there had been much argument against the subsidised export credit in India as it was considered a source of cross-subsidisation within the rate structure. It was also argued that what was important was timely and adequate provision of credit and not the cost thereof. Though export sector was kept outside the purview of priority sector, the banks' performance in this regard was always closely monitored by the Reserve Bank with a view to ensure that no export order was rejected for want of bank finance. In 1991, the frequency of submission of statistical return to be submitted by the banks to the Reserve Bank in respect of their exposure to export credit was brought down from six to three months. A mandatory export credit target of 10 per cent has recently been introduced by the Reserve Bank.

With a view to partially offsetting the loss the banks were suffering on account of export finance, export credit interest subsidy scheme was introduced in 1968. In spite of it, export credit was always cheaper than the domestic counterpart and, thus, acted as dis-incentive to the banks.

In 1990, a major reform was undertaken with regard to the structure of lending rates of commercial banks. This, however, did not affect the structure of export credit rate in a big way. With a view of providing an incentive to the exporter who repatriated proceeds early. The interest rates on post-shipment credit were revised in three stages in quick succession with effect from April 1, April 23 and August 6,1991.

With the adjustment in the exchange rate of rupee, the interest subsidy scheme on export credit was abolished and correspondingly the interest rate structure on export finance was revised upwards. Subsequently, with effect from October 9, 1991, the lending rates of all banks were raised across the board by 1.5 percentage points, which caused further upward revision in interest rate structure for export credit.

As a result of subsequent decline of wholesale price index, it was decided to reduce the lending rates on credit limits of Rs.2 lakhs by one per cent point from 20 per cent (minimum) to 19per cent(minimum).As such, with effect from March 2,1992, the rate structure in respect of some categories of export finance(post-shipment –a part and export credit not otherwise specified) was reduced by one percentage point, subsequently, minimum lending rate was further reduced to 18 per cent and then to 17per cent. Interest rate structure on export credit has further been reduced by one percentage point in latest Union budget 1993-94.

In retrospect, it can, however, be observed that interest rate in major varieties of export credit over a period of only one year has shown a quantum jump and in some cases like packing credit it has almost doubled. The resultant high cost of bank credit would no doubt affect adversely the profitability especially of small manufacturer as well as indirect exporters. Not withstanding the continued depreciation of Indian rupee, this likely to affect the export promotion measures keeping particularly in view the international competitiveness, from cost angle.

Section- III

Projections of Exports and Export Credit for the 1990s

In the percentage section, an attempt, was made to analyse the past trends of export credit by commercial banks. The futuristic dimensions are, however, more important with a view to appreciate the impending challenges ahead. The liberalisation of the economy coupled with continued aggressive thrust towards export promotion for better management of the external sector would necessarily mean that the banks have to plan and budget for the huge export credit needs of the country in future. Though the macro-level factors, such as exchange rate of rupee, unit value of exports, existence of incentives etc. indirectly influence the export credit estimation, the single most factor determining export finance is, however, the level of exports.

Regression Analysis Explaining Export Credit Two loglinear regression equation have been estimated by ordinary least square (OLS)method .This regression analysis pertains to the 1980s. The purpose of running regression was to: (i) ascertain whether export is the important determinant of pre-shipment and post-shipment credit, and (ii) predict the values of export credit requirements for the 1990s by using the values of estimated coefficients of the equations.

The two estimated equations explaining pre and post-shipment export credits are presented in Table 6. Coefficients of export in both the equations have turned out to be highly significant. Moreover, each equation explains 96 per cent variation in export credit (R2 is96 per cent). The values of slope coefficient, in both the equations ate the same i.e. 1.27, implying that one per cent increase in exports results in 1.27 per cent increase in export credit outstanding. In other words, the export credit requirement with respect to export is typically elastic.

Projecting Export Growth for 1992-93 to 1993-2000 AD Besides micro economic factors like productivity, quality and marketing efforts, growth of Indian exports in the 1990s many macro economic factors like (i) continuity in government's export promotion policies, (i) profitability in the domestic vis-a- vis international markets, (iii) recovery in economic growth in the industrialised countries. (iv) extent of pressure on the Balance of payment (BOP) position, (v) ease (or difficulty)in availability of external finance, (vi) extent of competition from the other countries and so on.

External economic environment, however, may not be favourable in coming few years. The collapse of the rupee trade is a set back . The slowing down of the world economy and the growing threat of protectionism may adversely affect the promotion efforts. The economies of OECD countries more particularly of USA, Japan Germany and Great Britain are all reeling under recession and chances of recovery in the near future are bleak.

Notwithstanding the constraints as mentioned above, there are bright prospects of accelerated export growth of India in future primarily on account of the following reasons:

(i) There is a visible shift in the Government's policy to pursue outward oriented growth strategy wherein exports play a major role.

(ii) The continued relaxation of import norms for exports would result in improvement of quality making the Indian goods internationally competitive.

(iii) The anticipated full convertibility of Indian rupee in near future may result in augmentation of exports.

(iv) With increasing competition in domestic market and a number of compensatory packages offered by the Government to the exporters, the relative profitability of the domestic market may fade away in the 1990s.

(v) Tight anti-inflationary monetary policy coupled with control on fiscal deficit may bring down the prevalent inflation rate in the country thereby reducing the cost of production.

Despite the Gulf war and general recession in the world economy, the performance of the country during the later half of 1980 and first year of 1990 in the export front has been quite commendable, though there was a temporary set back duting 1991-92. Thus, there is on strong reason to believe that the Indian exports will not be able to do well during next 10 years or so.

It is, thus felt that Indian exports will be able to maintain the growth rate achieved during 1986-87 to 1991-92. The export growth target for the entire Eighth Plan period (1992-93 to 1996-97) has been set at 13.6 per cent in volume terms, pegging the ratio of current account deficits to gross domestic product at 1.4per cent. The average growth in init value of exports during 1986-87 to 1988-89 (1988-89is the latest year for which data is available) has been 11 per cent. Assuming 11 per cent growth in unit value of export to continue, according to the Government's plan, export should grow by almost 25 per cent in current rupee terms. The calculation of average growth rate of exports during 1986-87 to 1991-92 suggests a 26 per cent growth. Thus, based on the above mentioned discussion, Government target of export growth and average growth rate realised during 1986-87 to1991-92, prediction of a growth in exports in exports to be least 25 cent in the remaining years of the1990s is quite realistic. Nevertheless, two alternative scenarios are also considered with lower growth rates of 15 per cent and 20 per cent. These are considered taking a conservative view of the international situation and likelihood of exports getting a further set back on account of failure of GATT negotiations and consequent expansion of tentacles of tentacles of global protectionism. Figures of projected exports under three alternative scenarios are given in Table 7.

Projections of Export Credit for the 1990s The coefficients estimated by the above mentioned regression equations (Table 6) along with export figures have been used for projecting pre and post-shipment export credit. As the provisional export figures for 1990-91 and 1991-92 are available, these are employed for projecting export credits for these two years. projected export figures calculated under three alternative scenarios as discussed above have been taken. The formulae to estimate the projections of export credit are as under :

PRSCE = a1 (EXP)b1
POSEC = a2 (EXP)b2

Where,

PRSEC = Pre- shipment export credit
POSEC=Post-shipment export credit
EXP=Total f.o.b.value of provisional exports at current prices for each of the years 1990-91 and 1991-92 and projected figures for each year of the remaining period
a1= Exponential of the estimated value of intercept in equation (1) In Table 6.
b1=Estimated value of slope coefficient in equation (1) in Table 6.
a2=Exponential of the estimated value of intercept in equation (2) in Table 6.
b2=Estimated value of slope coefficient in equation (2) of Table 6.

The projected pre and post-shipment export credit obtained from the above formulae are presented in Tables 8,9 and 10 respectively.

These show that on an assumed growth rate of 25 per cent in exports, the demand for export credit on outstanding basis at the end of 1994-95 and 1999-2000 AD would stand at Rs. 35,270 crores and Rs. 1,46,150 crores respectively. The corresponding export credit figures with 20 per cent growth rate in exports would be Rs.30,176 crores and 96,403 crores respectively. This implies that demand for export credit would become more than 3 times as at 1994-95 than what it was during 1990-91, while the same as at the end of the century would be more than during 1990-91, while the same as at the end of the century would be would be more than 9 and times respectively based on 20 and 25 per cent growth rates in exports.

The above computations do not take into account the demand for medium and long term export credits. Therefore, unless vigorous efforts are made to step up the flow of bank credit to export sector, the target would be very difficult to achieve and the gap between demand and supply is likely to widen.

Section-iv

Issues in Export Financing

During the course of the research, discussions were held with a number of exporters to elicit their views regarding problems faced by them in respect of prevalent to elicit their views regarding problems faced by them in respect of prevalent export credit system of the country. Discussions also took place with a cross section of bank managers/executives involved in export financing to know their opinion as regards the problems of the exporters as will as their perception regarding other financial institutions like ECGC and Exim Bank. Suggestions were also invited to affect improvement in the existing system of credit dispensation.

The issues described hereunder are broadly bifurcated in two parts:

Part I : Views of the Exporters.
Part II : Views of the Bankers.

PART I .Views of the Exporters

Bank Credit

The flow of bank credit to the exporters needs improvement. The suggestions offered in this regard are :

(i) The pre-shipment fiancé (packing credit) should be taken out of the purview of Maximum permissible Bank Finance (MPBF) meaning thereby that no contribution should be insisted in respect in respect of such finance, However, if this is not feasible, norms regarding second method of lending towards export finance needs to be relaxed and it should be replaced by First Method of Tandon Committee Recommendations.

(ii) Export credit should be brought within the purview of priority sector lending and quantitative targets, say 10 per cent of the total bank credit, should be fixed for the same

(iii) Single window concept in respect all export consortium financing should be introduced.

(iv) Norms for appraisal for all exporting units in financial parameters like current ratio, dept equity ratio, debt service coverage ratio, etc should be relaxed.

(v) Rate of interest both for pre and post-shipment finance should be reduced substantially and export credit interest subsidy scheme, if necessary should be introduced to compensate the banks.

(vi) Risk exposure ceiling norms (25 per cent of bank's capital and free reserves to a single borrower) in respect of lending should not be made applicable for exporting units.

(vii) Packing credit running account facility should be allowed in respect of all commodities.

(viii) System of automatic Payment of 90per cent on duty drawback claims may be introduced even before the scrutiny of the documents.

(ix) Special schemes should be devised and concessional finance should be granted to exporters in small scale sector.

(x) Banks should be explicitly prohibited from taking collateral security while financing the exporters.

Customer Service in Banks

Many views were expressed regarding the need for improving the customer service in banks. Some of the specific observations related to:

(i) Improving the knowledge of the bankers especially at branch level regarding the systems and procedures.
(ii) Offering expeditious decision in respect of loan requests of the exporters. A time frame was suggested to be made obligatory depending on the quantum of credit sought for.
(iii) Minimising delays in advising letters of credit to the branch of the exporter
(iv) Opening of more special export promotion and overseas branches by different banks.

Coordination

There is need to improve further the coordination between banks (in cases of consortium financing and also between the banks and financial institutions. Too much of power has been given to the lead bank and the bank having the second largest share as a result of which the lead bank does not take into consideration the opinion of the other banks even on important issues. Similarly, the exporters suffer due to lack of understanding between the banks and financial institutions Working capital finance is often delayed as a result of which export orders are lost.

Export Credit Guarantee Corporation and Exim Bank

(i) The approach of the corporation should be more liberal in terms of allowing buyer wise credit limits as well as settlement of claims.
(ii) Procedures of ECGC are quite cumbersome and should be made more flexible
(iii) Though Exim bank has been very quick in responding to the needs of the project exporters, the systems sometimes create problem. For instance, it is suggested that the clearing by working group should be treated as final and the system of obtaining further approval from banks and other agencies may be dispend with.

Policy Issues

(i) The period of packing credit in general should be extended to al least 365 days ab-initio instead of existing 270 days. The need is more in respect of certain specific industries like carpet, cashew, etc.
(ii) The exporters should be allowed to send the documents directly to the importers instead of routing them through the banking channel.
(iii) Concessional export credit should made available to all deemed exports. For instance supplies to ONGC/Oil India for their global contract for advance against supplies to projects financed by bilateral/multilateral agencies should be covered under cheap export finance.

New Services

(i) The concept of export financing backed by letter of credit is slowly giving way to open account sales all over the world. The importers especially of developed countries are increasingly getting reluctant to open LCs. The problem gets accentuated owing to international competition which is gradually becoming severe. Futher, there are many problems in realisation of export receivables within the stipulated time period of 180 days. The problem is more serious for small and medium exporters who do not have agents abroad, who can affect recovery of their international debts. As such, it would be of immense use if international factoring services are introduced in the country.

(ii) Export project financing is gaining popularity during last two decades especially to African and Middle East countries. The sovereign risk of these countries being high, getting export credit is becoming increasingly difficult. To mitigate the problem. Forfeiting services may be introduced in the country.

PART II : Views of the Bankers

The respondent bankers were unanimous in their opining that with a view to improving the balance of payment position of the country, there is an urgent need for export promotion, The policy should be outward oriented moving away from the dogmatic perception of import substitution to aggressive export promotion. In the above context, there is a need to make a sound system for effective credit dispensation by the banking system. However, the broad consensus was not in favor of any target oriented approach as this may adversely affect the exporters themselves. The opinion was also against any reduction in interest rate structure for respondent even stated that “interest cost on export finance is hardly 2-3 per cent of the financial cost. The further reduction in the same will definitely not make the exports internationally competitive..’ Therefore, what is needed is quality upgradation and not access to cheaper credit. The were also in favour of continuation of the present system of credit dispensation by way of second method of lending as per Chore Committee Recommendations. Some of the major views expressed by the respondent bank executives are given hereunder:

(i) Banks’ internal systems require to be further streamlined so that any export credit request is disposed of within a maximum time limit, say 2-3 months.

(ii) Special schemes may be devised for 100 per cent Export Oriented Units (EOUs) and the units located in Free Trade Zones (FTZs).

(iii) RBI’s licensing system may be dispensed with as regards opening of overseas as well as special export promotion branches.

(iv) Refinancing by RBI should be made mere liberal both quantitatively and also in terms of spread available to the banks.

(v) New instruments like options etc. should be formerly introduced in the market to hedge against the currency risks.

(vi) International factoring and forfeiting should be launched in the country.

(vii) There is an imperative need to develop expertise within the banks both in terms of knowledge and skill and also attitude. Training intervention is required for the above purpose, Further, the quick mobility of the officers is casing problem in this regard as the expertise takes time to be developed in view of the complexities involved in such trade financing.

(viii) The functioning of ECGC needs much improvement both in terns of setting buyer wise limits as will as settlement of claims.

Section-V

Conclusions and Recommendations

In the previous sections, an attempt was made to look in retrospect the various liberalised policy measures adopted by the government and Reserve Bank of India to promote exports. An analysis was also undertaken to scan the trends of exports finance in India with particular reference to credit deployment by scheduled commercial banks and also estimate the demand for export credit during the next decade. Deliberations were held with held with a number of exporters as will as bank executives to elicit their views regarding the efficacy of the existing system with a view to identifying the problem areas and taking remedial steps. Based on the analysis of date and experiences of other countries, some suggestions are offered in the following paragraphs, which attempt to improve the existing system of export finance.

Bank Credit and Policy Issues: A number of view points have been expressed regarding steps to be taken for increasing the flow of bank credit to export sector. While one extreme argument has been in favour of fixing quantitative targets for credit outlay of the banking system to exports, the moderate ones pleaded for more helpful attitude of the bankers and also relaxation of norms. The other view has been taking the pre-shipment credit our of the purview of Maximum Permissible Bank Finance (MPBF). However, in case the proposition is not found feasible, some relaxations in respect of minimum stipulated net working capital (NWC) were requested. Insistence on collateral security by the banker is the other area wherein concerns were expressed.

Taking in consideration the various factors as above and also the safety and liquidity of bank funds it is suggested as under:

(i) Fixing up quantitative targets for commercial banks towards their credit dispensation to export sector is neither a viable a viable nor a feasible proposition. Target oriented approach has always led to th degeneration of the system itself. Moreover, it may affect the exporters. However, a time bound disposal mechanism may be thought of as applicable to priority sector advances,as under:

Nature of proposal	Maximum Period of Disposal
Limits upto Rs.25,000	Maximum 2 weeks
Limits above Rs.25,000 but upto Rs. 2 lacs	Maximum 4 weeks
Limits upto above Rs.2 lacs	Maximum 2 months

The period of disposal may be reckoned from the date of receipt of the proposal at the branch.

(ii) No collateral security must be taken for proposals seeking export credit limits upto Rs.50.000.

(iii) While taking the packing credit limits our of the purview of Maximum permissible Bank Finance (MPBF) may not be a feasible proposition, some relaxation need be given in respect of contribution. It is therefore, suggested that the minimum stipulated net working capital may be reduced to 10 per cent of current assets compared to existing stipulated level of 25 per cent in respect of credit limits above Rs.50 lacs but upto Rs.5 crores. For the limits above Rs.5 crores, however, the normal level of minimum stipulated net working capital, that is 25 per cent of current assets would continue. Alternatively, working capital limits in respect of export credit upto a ceiling limit, say Rs.5 crores may be brought under First Method of lending of Tandon Commendations.

(iv) With a view to obviating some of the problems in respect of consortium lending, single window concept already stands introduced with regard to working capital advances though its applicability is limited of first disbursal only. Since delayed disbursal of export finance may ultimately men loss of foreign exchange earning of the country, it is suggested that in respect of consortium (working capital) arrangements for exporters, single window concept may be mandatory for all operations. This means that exporters would be able to restrict their day to day operation (both withdrawal and deposits) with any bank belonging to the consortium, of their choice, subject to the overall availability of total drawing power. This would indirectly imply Participation Certificate Scheme (with risk) being made obligatory for export financing. Alternatively, syndicated lending approach with or without multiple option facility (MOF) as prevalent in UK may be tried.

(v) Banks have recently been permitted to extend, on a case to case basis, packing credit finance, *ab-initio* upto 270 days. Any further relaxation in this regard is not warranted. The global experiences even in developed countries have shown that export credit under normal circumstances does not exceed a period of 180 days.

Interest Rate Structure of Commercial Banks: This issue has been discussed at length in previous section bringing out the views of both the exporters and bankers. While it is reiterated that in the long run subsidized credit is no solution to the problem of export growth, the fact remains that interest rate structure has shown a quantum jump from what it was a year ago. Abolition of interest subsidy has been one reason for the same. The high risk perceived by the banking community in export is the other contributing factor. While it is not wise to suggest reintroduction for interest subsidy scheme particularly in view of the growing thereat of imposition of countervailing duties (CVD) by the importing countries especially developed ones, in such cases, it is no denying that the profitability especially of small and medium manufacturer exporters is likely to be hit hard because of recent changers in interest arte structure. This may also affect the international competitiveness of the Indian exports. Therefore, it is suggested that a two-tier interest rate structure may be devised whereby some relaxation can be given to small /medium manufacturers, say whose annual export turnover does not exceed Rs.50 lacs. The rate of interest for such exporters may be fixed at not more than 1 per cent above bank rate both at per and post-shipment stages upto a period of 180 days from the date of shipment. In order to encourage banks to provide credit to such exporters, refinance may be given upto 100 per cent against such lending on transaction basis, that is the base year concept for such refinancing should not be there.

Refinance Facility: present system of refinance facility from Reserve Bank of India based on incremental export credits over the stipulated base period is quit logical in the sense that it sense that it discourages commercial banks to utilise the refinance for sectors other than exports, though it acts as a disincentive to the banks whose exports credit have not shown an increase during last few years. The existing system is also better from monetary management angle than the one prevalent in many other developing countries of the Asia wherein refinance is individual transaction specific. But, the system has created problem for those banks who had initially gone ahead aggressively towards marketing of export credit but subsequently slowed down the process. Therefore, such banks tend to loose the refinance facility though their share in export credit as a percentage of total bank credit may be above the industry average. Therefore, it is suggested that, while keeping the present mechanism of refinance intact, a long-term policy may be evolved in respect of base period concept. For instance, the base period of 1989-90, may be made applicable for getting refinance upto atleast next three years, that is 1993-94, and so on. Further, is suggested that the recommendations of the committee (1986) set up by Reserve Bank of India to study the structure of interest rates for export credit in India, to provide additional refinancing facilities to banks financing bulk contracts exceeding Rs.5 crores should be given favourable consideration. Refinancing facility should also be extended in respect of bank credit to all types of indirect exporters.

Customer Service in Banks: This has always been a matter of serious concern. Historically the banks of developing nations have been found to be conservative and risk averse. Lower returns coupled with higher perceived risk in respect of international trade financing have psychologically prevented the bankers to be aggressive in cross-country lending. This is more a function of psychological and attitudinal factors than of knowledge and skill. However, there has been a distinct sign of improvement during last few years and banks have started becoming increasingly conscious of their role in export promotion for the long-term survival of the country. What is needed is to remove the feat-psychosis existing among the field functionaries especially at branch level that export financing is not as risky a proposition as it is perceived to be. Intervention through training is one of the important solutions in this regard, through which every bank should endeavour to develop a strong and professional cadre of export credit specialists who could mean the vital positions. Quick mobility of the officer cadre is another problem whereby specialist branches like overseas branches, trained personnel, who should not be disturbed for a reasonable period of time, say 7 to 10 years whereby expertise gets settled. Regular career opportunities should also be provided to the specialist officers working at such offices. Each Regional/Zonal office should have an export promotion cell which would closely monitor the functioning of such specialized outlets.

Coordination between Banks and Financial Institutions: Though, of late, there are signs of perceptible improvement, the coordination between the financial institutions needs further strengthening. For exporting units, it should be made obligatory for the term lending institutions and banks to undertake joint appraisal in respect of overall credit needs of the borrower. A time bound programme should be undertaken to complete the process, say 3 months from the date of application. Banks must disburse the working capital within a specific period; say 15 days, after receipt of the certificate from the term lending institution regarding installation of the plant and machinery. Zonal office of each bank should be the nodal office with a designated senior officer to coordinate the activities of the bank and the financial institution(s) for credit proposals falling within the purview of the zone.

Specialised Institutions: As already discussed, India has a well developed institutional set up to cater to the credit needs of the exporters. But, discussions with exporters have revealed that the number of small and medium manufacturer exporters are not in a position to execute the orders owing to lack of institutional support as the latter have a tendency to help the larger clients who can offer them commensurate collateral. Therefore, the issue is whether there should be a structural intervention through creation of a separate body especially to take care of the needs of the small and medium exports. While it cannot be concluded that small/medium exporters, it may mean unrestricted attention to an exclusive group of clientele. Therefore, it is suggested that Small Industries Development Bank of India (SIDBI) should act as the focal point in respect of export financing with regard to small/medium exporters and innovate schemes for them. Alternatively, the government may think in terms of setting up a separate bank – Small Export Development Bank of India to take care of such needs. This bank may jointly be established by the Exim Bank, Commercial banks and SIDBI. This bank besides financing should also take upon the responsibility of identifying as well as providing managerial and technical assistance to small exporters.

Export Credit Guarantee Corporation of India (ECGC) Ltd.: There has been much criticism against the functioning of ECGC both from the bankers and exporters. These relate to the areas of setting up buyer wise limits (in respect of time taken) and settlement of claims (both in respect of procedures involved and time taken). While there is no evidence to the above effect, there is no denying that the coordination between banks and ECGC and the exporters and ECGC needs strengthening.

New Services: In the above paragraphs, discussion has mainly revolved round strengthening the existing systems and procedures. However, in the changing liberalized scenario and likely phenomenal growth in export credit in the years to come, it is imperative to develop new services which would open up new windows for the exporters for availing multifarious services. Some of these services could be as under:

Counter' Trade : This innovative method of financing trade transactions is a direct outcome of the severe restriction in the availability of traditional forms of financing. Besides, acute shortage of foreign exchange, wild fluctuations in commodity pricing and over supply thereof have caused many countries to turn to alternative methods of trade financing including counter trade, while at the same time attempting to achieve their economic objectives (Harris, 1989). Though counter trade in the primitive forms (besides bilateral agreements) have been in existence in India, there is a need to generate further consciousness regarding the utilities of the same: some advanced concepts of counter trade like Counter

Purchase and Counter Purchase Obligations, Compensation or Buy-back, offset Switch Trade are yet to be fully experimented. Reserve Bank and Government of India should come forward with policy measures to encourage this mode of financing international trade transactions.

Overseas Borrowings: In recent times, project/consultancy exporters have been permitted to avail of foreign currency loan/line of credit abroad. This method of financing should be extended on a selective basis to other categories of exporters as well.

Forfaiting : Though Exim Bank has been permitted, on a limited scale, to start this activity, its role is restricted to act as an intermediary between an exporter desirous to avail of the facility and a forfaiter abroad. what is needed is to experiment with the concept of launching forfeiting in the country itself meaning thereby that the banks including Exim bank should be permitted to discount the long term bills without recourse (forfeiting) relating to project exports. While appreciating that this is a high risk finance and no secondary market exists for Availised Bills of Exchange in India, it is suggested that legally it should be made an eligible financial activity. With the market opening up, there is possibility that some leading forfaiters in the world may come to India to start the venture.

International Factoring: The Kalyansundaram Committee set up in 1988 to look into the feasibility of staring factoring services in the country had recommended for launching international factoring along with the domestic counterpart. This was primarily on account of the fact that the importers both of developed and developing countries are increasingly becoming reluctant to open LCs though because of different reason- the importers of the former on account of consequent reduction in line of credit and those of the latter due to cost involved. Reserve Bank of India has decided to experiment first with the concept of domestic factoring and consequently subsidiaries of two major banks. SBI factors and Commercial Services Pvt. Ltd. and Canbank Factors Ltd. have started their operations during 191. It is high time that Reserve Bank of India should permit launching of international factoring which would go long way in promoting open account sales of Indian exporters and may eventually result in growth of export. However, India may have to accept the UNIDROIT (International Institute for Unification of Private Laws) Convention for this purpose.

Banker's Acceptance Facility: One of the important functions of the banks includes creation of credit (different from giving credit). In developed countries, the trade or market financing concept of the exporters has arisen from the above idea. Under such an arrangement, an exporter desirous to obtain finance from the market draws an usance bill on a banker which after assessing the credit risk of the former accepts it. This accepted bill is then got discounted by the exporter in the market to get the requisite fiancé. These bills are also treated as money market instruments and have become highly popular because of their low risk (bank guaranteed) and self-liquidating in nature. However, this facility can become popular only if the commercial bans have ability to internalize the risk of exporters. It is suggested that this innovative concept of Banker's Acceptance may be introduced in India.

It is hoped that these suggestions would help in rationalizing the export credit systems of the country and may help in the promotion of exports. To conclude, it can only be reiterated that without exports, country cannot survive and without availability of adequate export credit at reasonable cost, exports cannot grow.

Table – 1 Exports and Export Credit by Commercial Banks

(Rs.crore)

Year	Total Exports	Total Bank Credit for exports	Bank Credit as per cent of Exports
1981-82	7806	1729	22.15
1982-83	8803	1724	19.58
1983-84	0771	2080	21.29
1984-85	11744	2327	19.81
1985-86	10895	2493	22.82
1986-87	12453	3115	25.02
1987-88	15674	4068	25.93
1988-89	20232	6394	31.61
1989-90	27681	8262	29.85
1990-91	32527(P)	9153	28.14
1991-92	43978(P)	NA	-

Sources: (i) Report on Currency and Finance. RBI Various Issues; (ii) Punchamukhi, et.al. Export Financing in India, Interest Publications, New Delhi, 1991.

Table 2 – Bank Credit and Export Credit Outstanding

(Rs. crore)

Year	Total Credit	Gross Bank Credit	Export Credit as per cent of Bank Credit
1980-81	1637	25888	6.32
1981-82	1729	29192	5.93
1982-83	1724	34491	4.99
1983-84	2080	40421	5.15
1984-85	2327	47956	4.85
1985-86	2493	55213	4.52
1986-87	3115	62554	4.98
1987-88	4068	70260	5.79
1988-89	6394	85728	7.46
1989-90	8262	102671	8.05
1990-91	9153	117723	7.78

Source: Report on Currency and Finance, RBI Various Issues

Table 3 – Percentage Shares of Various Groups in Export Credit by Banks

Scheduled Banks	Percent share in Pre-shipment Credit			Per cent share in Post-shipment Credit		
	1988	1989	1990	1988	1989	1990
SBI Group	32.08	35.32	26.88	23.89	26.58	23.32
Natioalised Banks	55.48	52.26	62.49	63.41	60.89	65.58
Private Sector Banks	2.54	2.11	2.05	2.98	3.31	3.38
Foreign Banks	8.67	9.34	7.38	9.44	8.67	7.25
Co-operative Banks	1.23	0.67	1.20	0.28	0.55	0.47

Source: RBI reports

Table 4 – Exports, Pre and Post-shipment Credit and Their Growth Rates

Year	Total Exports	Simple Growth of Exports (%)	Pre-shipment Credit	Growth in Pre-shipment Credit	Post shipment Credit	Growth in Post-shipment Credit (%)
1980-81	6711	5	931	NA	706	NA
1981-82	7806	16	951	2.1	778	10.2
1982-83	8803	13	987	3.8	737	-5.3
1983-84	9771	11	1253	26.9	827	12.2
1984-85	11744	20	1322	5.5	1005	21.5
1985-86	10895	-7	1404	6.2	1089	8.4
1986-87	12452	14	1778	26.6	1337	22.8
1987-88	15674	26	2363	32.9	1705	27.5
1988-89	20232	29	3737	58.1	2657	55.8
1989-90	27681	37	4594	22.9	3668	38.0
1990-91	32527 (P)	17	NA	NA	NA	NA
1991-2	43978(P)	35	NA	NA	NA	NA

Source: (i) Report on Currency and Finance, RBI Various Issues;(ii) Panchamukhi, et al. Export Financing in India, Interest Publications, New Delhi, 1991;(iii) RBI Records

Note: (i) Pre and Post-shipment credits do not include deferred credit; (ii) NA means not available

Table – 5 Average Growth Rates of Exports, Pre and Post-shipment Credit

Period	Average Growth in exports	Average Growth in Pre-shipment Credit	Average Growth in Post-shipment Credit
1980-81 to 1985-86	9.7	-	-
1986-87 to 1991-92	26.3	-	-
1980-81 to 1985-86	-	8.9	9.4
1986-87 to 1989-90	-	35.1	36.0

Source: Calculated from Table 4

Table 6 – Equations explaining pre-and post-shipment export credits.

In PRESEC = -4.5763 + 1.2755.In EXP
(14.41)*

R^2 = 0.96, F-statistics = 207.55
Mean of the dependent variable = 7.41 D.W.Statistics=1.59
No. of observations = 10

In POSEC = -4.8352 + 1,2723 In EXP
(13.71)*

R^2 = 0.96, F-statistics = 187.95
Mean of the dependent variable = 7.12 D.W.Statistics=0.92
No. of observations = 10
No. of observations = 10

PRSEC = Pre-shipment credit at current prices
POSEC = Post-shipment credit at current prices
EXP = f.o.b. value of exports at current prices
Figures in parenthesis are t value; all the coefficients are significant at 1% level

Table 7 – Projected Exports under Three Scenarios

Year	EXP 15	EXP 20	EXP 25
1990-91	32527*	32527*	32527*
1991-92	43978*	43978*	43978*
1992-93	50575	52774	54973
1993-94	58161	63329	68715
1994-95	66885	75995	85894
1995-96	76918	91193	107368
1996-97	88455	109432	134210
1997-98	101724	131318	167763
1998-99	116982	157582	209704
1999-2000	134520	189098	262129

* Provisional figures of exports

Table 8 – Projected Exports Credit Outstanding assuming 15 percent Growth in Exports (Rs.crore)

Year	PRSEC 15	POSE 15	Total Export Credit
1990-91	5860*	4375*	10235*
1991-92	8609*	6422*	15031*
1992-93	10289	7672	17961
1993-94	12297	9165	21462
1994-95	14696	10949	25645
1995-96	17564	13079	30643
1996-97	20992	15625	36616
1997-98	25088	18665	43753
1998-99	29984	22298	52282
1999-2000	35835	26637	62472

*Projected on the basis of the provisional figures of exports

Table 9 – Projected Exports Credit Outstanding Assuming 20 per cent Growth in Exports

(Rs. crores)

Year	PRSEC 20	POSEC 20	Total Export Credit
1990-91	5860*	4375*	10235*
1991-92	8609*	6422	15031*
1992-93	10863	8099	18962
1993-94	13707	10213	23920
1994-95	17296	12880	30176
1995-96	21824	16242	38066
1996-97	27538	20483	48021
1997-98	34748	25831	60578
1998-99	43845	32575	76420
1999-2000	55324	41079	96403

*Projected on the basis of the provisional figures of exports

Table 10 – Projected Exports Credit Outstanding Assuming 25 per cent Growth in Exports

(Rs.crores)

Year	PRSEC 20	POSEC 20	Total Export Credit
1990-91	5860*	4375*	10235*
1991-92	8609*	6422*	15031*
1992-93	11443	8531	19974
1993-94	15211	11331	26542
1994-95	20219	15051	35270
1995-96	26877	19993	46870
1996-97	35726	26557	62283
1997-98	47490	35276	82766
1998-99	63126	46857	109983
1999-2000	83910	62240	146140

*Projected on the basis of the provisional figures of exports

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